

ADMINISTRATOR'S MESSAGE

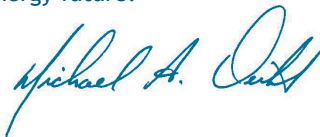
Southwestern Power Administration has operated for sixty years with the underlying goal of meeting our public responsibilities.

We help protect National and economic security by contributing to the diverse supply of domestically produced energy. We operate a safe and reliable transmission system. We make sure all power is marketed with preference to public bodies and cooperatives. We focus on repaying the investment of the American taxpayers in the hydropower facilities. We encourage competitive markets through open access to transmission lines. And we protect the hydropower facilities and the valuable information assets associated with them.

The reasons we do this are clear. First and foremost, we want to help decrease dependency on foreign energy by operating our system in the most effective and cost efficient manner, so that no energy is wasted. We also want to promote reliability within our region so that power outages and other interruptions can be avoided. And finally, we have a duty to the American people to repay the investment in the facilities and protect our Nation's assets from the hostile influences in the world.

Southwestern's Strategic Plan outlines how we will keep meeting these public responsibilities by marketing and delivering Federal hydropower. The plan describes Southwestern's goals for the next year and beyond, focusing on clear performance measurements to monitor our progress.

We are committed to reaching these goals, and to supporting the goals and objectives defined in the Department of Energy Strategic Plan, the National Energy Policy, and the President's Management Agenda. By targeting these goals and objectives and making them a reality, we will do our part in securing America's energy future.



Michael A. Deihl,
Administrator

SOUTHWESTERN POWER ADMINISTRATION

STRATEGIC PLAN OCTOBER 2003



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MARKET ... all available hydroelectric power from U.S. Army Corps of Engineers (Corps) dams, providing economic and environmental benefits to the Southwestern region at cost-based rates sufficient to repay all power costs to the American taxpayer, while balancing power needs with the diverse interests of water resource users.

#1 Market all available power and energy with preference to public bodies and cooperatives.

- Market 100% of firm capacity and associated energy in accordance with Southwestern's Marketing Plan.

#2 Provide economic benefits to the region.

- Produce an average of \$525 million in economic benefits on a yearly basis under average water conditions, for a total of approximately \$8.4 billion from 2000 through 2015.*

#3 Generate environmental benefits for the region.

- Save 9.2 million barrels of oil, 2.7 million tons of coal, or 56 billion cubic feet of gas under average water conditions.
- Prevent greenhouse emissions of 4.6 million tons of carbon dioxide, 13.9 thousand tons of sulfur dioxide, and 11.1 thousand tons of nitrogen oxide under average water conditions.

#4 Repay all power costs to the American taxpayers.

- Repay 60% of the taxpayer's total investment in the Federal power system by 2015.*
- Repay an average of 1.0% on the Federal investment each year.

#5 Produce low-cost energy at cost-based rates.

- Assure that the average annual change in operating costs per kilowatt-hour does not exceed the average annual rate of inflation.
- Achieve an average operating cost of \$0.0265 per kilowatt-hour by 2015 (based on a projected average annual inflation rate of 2.5%).*

Southwestern remains committed to meeting our financial obligations while providing reliable, low-cost energy. For sixty years, we've marketed all of the hydroelectric energy available from Corps projects within our marketing area - repaying power costs and providing affordable, environmentally clean energy along the way. We look forward to continuing this service and maintaining our contribution to the environmental and economic well-being of the Nation.

**DOE STRATEGIC
GOAL**

To protect our National and economic security by promoting a diverse supply and delivery of reliable, affordable, and environmentally sound energy.

**SOUTHWESTERN
PROGRAM GOAL**

Customers benefit from Federal power by purchasing and receiving low-cost, reliable electricity from Federal multipurpose hydroelectric dams at cost-based rates that produce revenues sufficient to repay all power costs to the American taxpayers.

* These long-term performance measures are included in Southwestern's Annual Congressional Budget and in the Program Assessment Rating Tool (PART) of the Office of Management and Budget (OMB).

DELIVER ... electricity through a reliable Federal transmission system which meets utility safety standards and is operated and maintained cost-effectively, assuring physical and cyber security, while encouraging competition through open access to facilities.

#1 Operate the power system in the most effective and cost efficient manner.

- Meet the minimum North American Electric Reliability Council (NERC) Control Performance Standards (CPS 1 and CPS 2) and achieve the industry average.*

#2 Maintain transmission system reliability.

- Achieve a rolling ten-year average of less than two preventable transmission outages per year.*
- Attain a System Average Interruption Duration Index (SAIDI) of less than 150 minutes per year of total preventable outages.

#3 Operate and maintain the transmission system safely.

- Achieve an annual lost time injury frequency rate lower than the industry average.

#4 Assure the security of Southwestern's power system, facilities, and information technology systems.

- Comprehensively review Southwestern's critical physical infrastructure assets to rank and identify transmission system vulnerabilities and determine appropriate actions to deter, respond, and recover from a security breach.
- Assess Southwestern's four major computer systems using the guidelines of the National Institute of Standards and Technology Special Publication 800-26 to assure that the systems are secure, operate effectively, and provide appropriate confidentiality, integrity, and availability.

#5 Encourage competitive electric power markets through open access to transmission facilities.

- Meet all NERC interconnection standards and requirements so that power systems can be interconnected to relieve transmission constraints.
- Monitor and participate in regional initiatives to maintain reliability and security of the national grid and address potential bottlenecks.
- Join a regional transmission organization that meets the intent of FERC Order 2000 when cost/benefit economic evaluation supports such decision.



As a transmission operator, Southwestern has always provided dependable service-on-demand to our customers. We understand that delivery of reliable energy is vital to the economic and domestic security of the Nation. We will continue to support competitive markets and to operate our system in the safest, most effective, most cost-efficient manner possible, so that the delivery of reliable energy and the stability of our National transmission system will remain secure.

MISSION - Southwestern Power Administration's mission is to market and reliably deliver Federal hydroelectric power with preference to public bodies and cooperatives. This is accomplished by maximizing the use of Federal assets to repay the Federal investment while balancing power needs with the diverse interests of other water resource users, and implementing public policy.

VISION - Southwestern has an open and trusting partnership with our customers in meeting their business expectations for operation of the Federal hydropower system and with the American public in meeting our financial obligations while providing good stewardship of regional water resources. The Southwestern work force is cost-conscious, team-based, and empowered to meet customer expectations.

PROGRAM EVALUATION -

As part of an ongoing strategic planning process, Southwestern regularly conducts internal reviews of our operations to measure overall effectiveness. Our Program Goal, which emphasizes customer service, reliability, and accountability in meeting our financial obligations, mirrors the performance measures of our Strategic Plan, and we track our progress quarterly to assure our continued success.

Repayment of the Federal investment is a measure we use to meet our responsibilities to the American taxpayer. Each year, we conduct a thorough analysis to assure our rates will provide sufficient revenues to cover costs. These repayment studies are subject to customer, DOE, and FERC review. Additionally, we gauge the quality of our service through regular customer surveys, which provide valuable feedback we use to improve performance. We also take part in audits and peer reviews of critical infrastructure systems to keep our information and communication assets secure.

Our dispatching and transmission operations are regularly reviewed by NERC and the Regional Reliability Council to assure that regional operational standards are met. Additional reviews are conducted by the DOE Inspector General, the General Accounting Office, the Office of Personnel Management, DOE Procurement, and independent auditors of Southwestern's financial system. In 2002, Southwestern was among the first of Federal agencies to participate in a formal program assessment using OMB's PART. The initial scores and findings were provided to Congress, and follow-on program assessment is ongoing.

Southwestern truly believes that by adjusting our performance according to the internal and external measures listed above, as well as other measures that may contribute to our success, we can continue meeting our public responsibilities and improving our performance.

ASSUMPTIONS - Southwestern is only one player in a technically complex and competitive industry. There are often factors that cannot be planned for, such as the amount of rainfall, regulatory actions that may affect operations, potential reallocation of the water resources within the region, fluctuating costs associated with hydropower project operations and maintenance expenses, and adequate funding to run an effective and efficient program. However, regardless of any outside factors that may affect our performance, Southwestern remains committed to meeting our public responsibilities by marketing and delivering reliable, affordable, and environmentally clean hydropower, and doing our part to reduce the need for imported energy.

CORPORATE VALUES

- We believe our employees are our most important resource.
- We meet our financial obligations to the American public.
- We give customers' power needs top priority.
- We provide the American public responsible stewardship of the nation's water resources.
- We treat everyone with courtesy, respect, and honesty, while recognizing individual needs.
- We meet expectations for quality, costs, and schedules, using good business practices.
- We help each other develop professionally.
- We maintain a safe and productive work environment.

STAKEHOLDERS - Stakeholders are organizations which affect or are affected by the products and services Southwestern provides. They are:

- Our Customers
- The Department of Energy
- Federal and contract employees
- Congress and the American public
- The utility industry
- Water resource interests
- The U.S. Army Corps of Engineers
- The Office of Management and Budget
- Other Federal agencies

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